

DEFENSE LOGISTICS AGENCY
Defense Wide Working Capital Fund (DWWCF)
Document Automation and Production Service
FISCAL YEAR (FY) 2004 BUDGET ESTIMATES

FUNCTIONAL DESCRIPTION: The Document Automation and Production Service (DAPS) is responsible for the DoD printing, duplicating, and document automation programs. This responsibility encompasses the full range of automated printing services to include: conversion, electronic storage and output, and the distribution of hard copy and digital information. DAPS provides time sensitive, competitively priced, high quality products and services that are produced either in-house or procured through the Government Printing Office (GPO).

DAPS manages this worldwide mission through a customer service network comprised of a Headquarters located at Mechanicsburg, Pennsylvania, and 181 production facilities.

CUSTOMERS: DAPS primary customers are Army (20.9%), Navy (29%), Air Force (19.7%), and Defense Agencies (22%) and non-DoD customers (8.4%). Both appropriated and DWCF-funded activities are included in each Service's percentage.

BUDGET HIGHLIGHTS

SPECIAL INTEREST ITEMS: In FY 2002, DAPS implemented a Most Efficient Organization (MEO) resulting from an A-76 study decision. DoD investment in the MEO during FY 2002 was approximately \$27 million. Implementation of the MEO resulted in consolidation of 93 of the DAPS locations (36%) as well as, the upgrade, replacement and/or disposal of over 300 equipment items. In addition, 255 (19%) of the total DAPS personnel were downsized.

The Department is reviewing alternatives to the current operation and structure of DAPS, based on the premise that the DAPS functions may not be inherently governmental and other sources may exist for these services. The review will address mission transfer and alternative sourcing in the public or private sectors and will be completed by July 2003. Pending any adjustments that may be appropriate as a result of this review, the budget reflects the discontinuation of DAPS as currently structured (less inclusion of related financial results in the DWWCF) beginning in FY 2004 with a completion date in FY 2005.

To minimize the potential impact on personnel, this budget funds \$+13.4 million in both FY 2004 and FY 2005 for voluntary separation incentive pay (VSIP) and voluntary early retirement authority (VERA).

PERFORMANCE INDICATORS:

1) Conversion to Digital Format: This performance metric measures the number of pages (in millions) converted to digital format during the year. Conversions may be accomplished either in-house or by contract and include hardcopy to digital, system output to digital and from one form of digital to another. Actual production of 62 million pages exceeded the goal of 58 million pages converted, and represents an increase of 9% from FY 2001

2) Customer Satisfaction: Overall, DAPS reflected an 87% customer satisfaction rate for FY 2002. The goal was 93%.

3) Rework: In-house rework percentage is used to measure the quality of delivered products. This performance metric is calculated by dividing (1) revenue lost from orders not accepted by (2) the total in-house production revenue. During FY 2002, DAPS achieved a 0.40%. The goal was 0.38%.

FINANCIAL PERFORMANCE MEASURE: In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with a unit cost performance measure. DAPS Annual Operating Budget (AOB) measures this performance by dividing the total units by the total cost.

| | <u>FY02 Goal</u> | <u>FY02 Actual</u> |
|---|------------------|--------------------|
| U/C per In-house Production Unit | .0577 | .0624 |

DAPS did not achieve its unit cost goal due primarily to the costs associated with the implementation of the MEO. MEO implementation costs were \$27 million of operating funds.

NET OPERATING RESULT (NOR)/ACCUMULATED OPERATING RESULT (AOR):
The NOR measures a single fiscal year, impact of revenue and expenses incurred by the business. A positive NOR demonstrates that revenues exceeded expenses for the business activity. AOR reflects multi-year results of annual NORs. Its measurement describes the accumulated affects of NORs and demonstrates the fiscal strength over a longer time.

The following chart depicts the actual NOR / AOR for FY 2002, and projected NOR / AOR for FY 2003 through FY 2005:

| (\$ Millions) | FY 02 (Actual) | FY 03 | FY 04 | FY 05 |
|-----------------------|-------------------|--------|-------|-------|
| NOR | (34.3) | 45.8 | 5.1 | 18.8 |
| Prior Year AOR | (18.6) | (52.8) | (7.0) | (1.9) |
| Prior Year Adjustment | | - | | - |
| AOR | (52.8) | (7.0) | (1.9) | 16.9 |

DAPS finished FY 2002 with a Negative NOR of \$-34.2 million against a goal of \$5.6 million. This is due to MEO implementation costs that were not budgeted. The MEO was implemented ahead of schedule. Rates for FY 2003 were set to recover AOR losses. DAPS projects \$+16.9 million AOR by the end of FY 2005.

PERSONNEL: FY 2002 saw a 23% end strength reduction from FY 2001. This is primarily related to the MEO implementation, and the effect continues into FY 2003. FY 2004 through FY 2005 reflects a significant reduction in personnel. This reflects the discontinuation of DAPS as currently structured, pending any adjustments that may be appropriate as a result of the mission transfer and alternative sourcing review.

CAPITAL BUDGET: The capital budget is the account available for investments that exceed the \$100,000 expense/investment criteria. These investments fall into one of four categories: (1) Automated Data Processing Equipment (ADPE), (2) Non-ADPE, (3) software developed for operational and management information systems, and (4) minor construction projects. A capital budget item is assumed to have zero salvage value and is depreciated on a straight-line basis over its useful life. This depreciation is expensed and recovered, as business related cost, in DAPS prices.

DAPS made a significant investment in FY 2002 in production equipment to implement the MEO. As a result of price decreases, the majority of the equipment required to implement the MEO was purchased with operating funds. The combination of the MEO investment and price decreases resulted in a significant decrease in capital requirements.

ACTIVITY GROUP PROFILE

(Dollars and Workload in Millions)

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Cost of Goods Sold | 422.7 | 381. | 387.1 | 371.9 |
| Pass through/Other Appropriations | | | | |
| Net Operating Results | (34.3) | 45.8 | 5.1 | 18.8 |
| Accumulated Operating Results | (52.8) | (7.0) | (1.9) | 16.9 |
| Workload | | | | |
| In-House | 3147.6 | 2575.1 | 2497.9 | 2438.3 |
| Production (Units) | | | | |
| Unit Cost | | | | |
| In-House | 0.0624 | 0.0581 | 0.0584 | 0.0538 |
| Production | | | | |
| Customer Rate | 0.0549 | 0.0669 | 0.0618 | 0.0616 |
| Customer Rate Change | (1.9%) | 6.2% | (2.0%) | 2.2% |
| Document Conversion | 62.0 | 59.2 | 61.2 | 60.2 |
| Customer Satisfaction | 87% | 93.0% | 93.0% | 93.0% |
| Rework Requests | 0.40% | 0.36% | 0.35% | 0.34% |
| Civilian End Strength | 1108 | 1076 | 535 | 0 |
| Civilian Full-Time Equivalents | 1299 | 1126 | 723 | 180 |
| Capital Budget Program | | | | |
| Equipment (Non-ADP) | 3.8 | 0.2 | 0 | 0 |
| Equipment (ADP/T) | 2.5 | 5.4 | 0 | 0 |
| Software | 1.2 | 0.3 | 0 | 0 |
| Development | | | | |
| Minor | 0.0 | 0.0 | 0 | 0 |
| Construction | | | | |
| TOTAL | 7.5 | 5.9 | 0 | 0 |

DEFENSE LOGISTICS AGENCY
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Document Automation and Production Service
FISCAL YEAR (FY) 2004 BUDGET ESTIMATES
Changes in the Cost of Operation
(Dollars in Millions)

| | <u>Expenses</u> |
|--|-----------------|
| FY 02 Actual: | 422.7 |
| FY 03 Estimate in President's Budget | 406.3 |
| Pricing Adjustments | |
| Annualization of FY 02 Pay Raise | 0.0 |
| FY 02 Pay Raise | (5.8) |
| General Purpose Inflation | (2.0) |
| Program Changes: | |
| Civilian Personnel | (9.5) |
| Travel of Persons | (0.7) |
| Material & Supplies | (2.4) |
| Comm'l Equip Purchases | (0.6) |
| Other Purchased Services from Revolving Fund | 1.0 |
| Printing and Reproduction | 18.6 |
| Rent, Communications, Utilities, and Misc | (10.4) |
| Other Purchased Services | (13.4) |
| Transportation of things | (0.4) |
| Depreciation | 0.3 |
| FY 03 Current Estimate | 381.0 |
| Pricing Adjustments: | |
| Annualization of FY 02 Pay Raise | 0.5 |
| FY 03 Pay Raise | 0.9 |
| General Purpose Inflation | 4.8 |
| Program Changes: | |
| Civilian Personnel | (9.0) |
| Travel of Persons | 0.0 |
| Material & Supplies | (0.7) |
| Comm'l Equip Purchases | 0.0 |
| Other Purchased Services from Revolving Fund | 3.2 |
| Printing and Reproduction | 8.0 |
| Rent, Communications, Utilities, and Misc | 0.2 |
| Other Purchased Services | (1.3) |
| Transportation of things | 0.0 |
| Depreciation | (0.5) |
| FY 04 Current Estimate | 387.1 |
| Pricing Adjustments | |
| Annualization of Prior Year Pay Raises | 0.2 |
| FY 04 Pay Raise | 1.0 |
| General Purpose Inflation | 4.9 |

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Defense-Wide Working Capital Fund
Document Automation and Production Service
FISCAL YEAR (FY) 2004 BUDGET ESTIMATES
Changes in the Cost of Operation
(Dollars in Millions)

| | |
|--|-----------|
| Program Changes: | |
| Civilian Personnel | (34.1) |
| Travel of Persons | (0.2) |
| Material & Supplies | (0.9) |
| Comm'l Equip Purchases | 0.0 |
| Other Purchased Services from Revolving Fund | (0.1) |
| Printing and Reproduction | 15.0 |
| Rent, Communications, Utilities, and Misc | 0.0 |
| Other Purchased Services | (0.6) |
| Transportation of things | 0.0 |
| Depreciation | (0.4) |
| FY 05 Current Estimate | 371.9 |

DEFENSE LOGISTICS AGENCY
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Document Automation and Production Service
FISCAL YEAR (FY) 2004 BUDGET ESTIMATES
Source of New Orders and revenue
(Dollars in Millions)

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> |
|---|----------------|----------------|----------------|----------------|
| 1. New Orders | | | | |
| a. Orders from DoD Components | 259.8 | 287.9 | 267.2 | 264.9 |
| Department of the Navy | 79.7 | 88.3 | 82.0 | 81.3 |
| Operations and Maintenance, Navy | 45.6 | 50.5 | 46.9 | 46.5 |
| Operations and Maintenance, Marine Cor | 10.6 | 11.7 | 10.9 | 10.8 |
| O&M, Navy Reserve | 0.7 | 0.8 | 0.7 | 0.7 |
| O&M, Marine Corps Reserve | 0.1 | 0.1 | 0.1 | 0.1 |
| Aircraft Procurement, Navy | 1.0 | 1.1 | 1.0 | 1.0 |
| Shipbuilding & Conversion, Navy | 1.1 | 1.2 | 1.1 | 1.1 |
| Research, Development, Test & Eval, Na | 0.5 | 0.6 | 0.5 | 0.5 |
| Military Construction, Navy | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Navy Appropriations | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit Card Purchases, Navy | 20.1 | 22.3 | 20.7 | 20.5 |
| Department of the Army | 77.9 | 86.3 | 80.1 | 79.4 |
| Army Operation and Maintenance | 23.5 | 26.0 | 24.2 | 24.0 |
| O&M, Army Reserve | 2.2 | 2.4 | 2.3 | 2.2 |
| Army National Guard | 1.4 | 1.6 | 1.4 | 1.4 |
| Army Res, Dev, Test & Eval Accounts | 1.0 | 1.1 | 1.0 | 1.0 |
| Army Procurement Accounts | 0.4 | 0.4 | 0.4 | 0.4 |
| Army Other | 0.5 | 0.6 | 0.5 | 0.5 |
| Credit Card Purchases, Army | 48.9 | 54.2 | 50.3 | 49.9 |
| Department of the Air Force | 66.4 | 73.6 | 68.3 | 67.7 |
| Air Force Operation & Maintenance | 21.0 | 23.3 | 21.6 | 21.4 |
| O&M, Air Force Reserve | 1.1 | 1.2 | 1.1 | 1.1 |
| Air Force National Guard | 1.6 | 1.8 | 1.6 | 1.6 |
| Air Force Res, Dev, Test & Eval Accour | 1.6 | 1.8 | 1.6 | 1.6 |
| Air Force Procurement Accounts | 1.2 | 1.3 | 1.2 | 1.2 |
| Air Force Other | 0.1 | 0.1 | 0.1 | 0.1 |
| Credit Card Purchases, Air Force | 39.8 | 44.1 | 40.9 | 40.6 |
| DoD Appropriated Accounts | 35.8 | 39.7 | 36.8 | 36.5 |
| Operation & Maintenance Accounts | 9.6 | 10.6 | 9.9 | 9.8 |
| Res, Dev, Test & Eval Accounts | 1.5 | 1.7 | 1.5 | 1.5 |
| Procurement Accounts | 0.1 | 0.1 | 0.1 | 0.1 |
| Military Construction, Defense | 0.0 | 0.0 | 0.0 | 0.0 |
| Defense Health Program | 10.9 | 12.1 | 11.2 | 11.1 |
| DoD Other | 0.8 | 0.9 | 0.8 | 0.8 |
| Credit Card Purchases, Defense | 12.9 | 14.3 | 13.3 | 13.2 |
| b. Orders from other Fund Activity Groups | 91.2 | 101.1 | 93.8 | 93.0 |
| Navy | 31.3 | 34.7 | 32.2 | 31.9 |
| Army | 2.0 | 2.2 | 2.1 | 2.0 |
| Air Force | 9.2 | 10.2 | 9.5 | 9.4 |
| Other DoD | 48.7 | 54.0 | 50.1 | 49.7 |
| c. Total DoD | 351.0 | 388.9 | 361.0 | 357.9 |
| d. Other Orders | 32.2 | 35.7 | 33.1 | 32.8 |
| Other Federal Agencies | 25.3 | 28.0 | 26.0 | 25.8 |
| Credit Card Purchases | 4.9 | 5.4 | 5.0 | 5.0 |
| Non-Federal Agencies and Other | 2.0 | 2.2 | 2.1 | 2.0 |
| Total New Orders | 383.2 | 424.6 | 394.2 | 390.8 |
| 2. Carry-In Orders | 27.0 | 21.9 | 24.1 | 22.1 |
| 3. Total Gross Orders | 410.2 | 402.7 | 370.1 | 368.7 |
| 4. Funded Carry-Over | 21.9 | 24.1 | 22.1 | 22.0 |
| 5. Total Gross Sales | 388.3 | 426.8 | 392.2 | 390.7 |

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FISCAL YEAR (FY) 2004 BUDGET ESTIMATES
Revenue and Expenses
(Dollars in Millions)

| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> |
|--|----------------|----------------|----------------|----------------|
| Revenue | | | | |
| Gross Sales | 388.4 | 426.8 | 392.2 | 390.7 |
| Operations | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital Surcharge | 0.0 | 0.0 | 0.0 | 0.0 |
| Depreciation excluding Major Construction | 0.0 | 0.0 | 0.0 | 0.0 |
| Major Construction Depreciation | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Income | 0.0 | 0.0 | 0.0 | 0.0 |
| Refunds/Discounts (-) | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Income: | 388.4 | 426.8 | 392.2 | 390.7 |
| Expenses | | | | |
| Cost of Material Sold from Inventory | 0.0 | 0.0 | 0.0 | 0.0 |
| Salaries and Wages: | | | | |
| Military Personnel Compensation & Benefits | 0.0 | 0.0 | 0.0 | 0.0 |
| Civilian Personnel Compensation & Benefits | 73.6 | 62.5 | 54.9 | 22.0 |
| Travel & Transportation of Personnel | 1.4 | 1.4 | 1.4 | 1.2 |
| Materials & Supplies (For Internal Operations) | 28.0 | 24.8 | 24.5 | 24.0 |
| Equipment | 16.6 | 1.6 | 1.6 | 1.6 |
| Other Purchases from Revolving Funds | 4.0 | 3.6 | 7.2 | 7.4 |
| Transportation of Things | 1.0 | 1.3 | 1.2 | 1.2 |
| Depreciation - Capital | 6.6 | 4.4 | 3.9 | 3.5 |
| Printing and Reproduction | 211.3 | 225.0 | 236.4 | 254.9 |
| Advisory and Assistance Services | 0.0 | 0.0 | 0.0 | 0.0 |
| Rent, Communications, Utilities, & Misc. Charges | 15.1 | 9.6 | 9.7 | 9.8 |
| Other Purchased Services | 65.1 | 46.9 | 46.3 | 46.3 |
| Total Expenses: | 422.7 | 381.0 | 387.1 | 371.9 |
| Operating Result | (34.3) | 45.8 | 5.1 | 18.8 |
| Less Capital Surcharge Reservation | | | | |
| Plus Passthroughs/Other Appropriations Affecting NOR | 0.1 | 0.0 | 0.0 | 0.0 |
| Net Operating Result | (34.2) | 45.8 | 5.1 | 18.8 |
| Prior Year Adjustments | | | | |
| Prior Year AOR | (18.6) | (52.8) | (7.0) | (1.9) |
| Accumulated Operating Result | (52.8) | (7.0) | (1.9) | 16.9 |
| Non-Recoverable Adjustment Impacting AOR: | | | | |
| Surcharge Prohibition | | | | |
| Accumulated Operating Results for Budget Purposes | (52.8) | (7.0) | (1.9) | 16.9 |